

Finning reports Q2 2017 results; increases dividend

Vancouver, B.C. – Finning International Inc. (TSX: FTT) (“Finning” or the “Company”) reported 2nd quarter 2017 results today. All monetary amounts are in Canadian dollars unless otherwise stated.

HIGHLIGHTS

- EPS⁽¹⁾ was \$0.34 per share.
- Revenue increased by 21% from Q2 2016, with higher new equipment and product support revenues in all operations.
- Market recovery and improved operating performance drove higher profitability in Canada and UK & Ireland.
- South America delivered solid results, with significant growth in Argentina.
- Equipment backlog⁽²⁾ rose by almost 30% from Q1 2017 to over \$900 million. All operations reported higher backlog in Q2 2017.
- Annualized dividend increased by 4% to \$0.76 per share, reflecting the expectation for positive annual free cash flow⁽²⁾ and sustainable earnings recovery.

“Our second quarter results demonstrate strong operating leverage as we continue to benefit from operating performance improvements and a reduced cost base. Strengthening demand for equipment and product support in all our regions had a positive impact on our results, and we now expect our annual revenues to increase modestly over 5% compared to 2016,” said Scott Thomson, president and CEO of Finning International Inc.

“To meet stronger demand, we are purchasing inventories while maintaining capital discipline. Continued progress to optimize our supply chain is driving improvements in our working capital to sales ratio⁽²⁾. Importantly, our consistent focus on profitability and capital discipline generated higher return on invested capital⁽²⁾ in each of our regions during the quarter,” concluded Mr. Thomson.

Q2 2017 FINANCIAL SUMMARY

Quarterly Overview <i>\$ millions, except per share amounts</i>	Q2 2017	Q2 2016	% change	Q2 2016 Adjusted⁽³⁾	% change Adjusted
Revenue	1,581	1,310	21	1,310	21
EBIT ⁽¹⁾	98	29	232	63	54
<i>EBIT margin</i>	6.2%	2.3%		4.9%	
EBITDA ⁽¹⁾⁽²⁾	146	77	87	111	31
<i>EBITDA margin⁽²⁾</i>	9.2%	6.0%		8.5%	
Net income	56	5	n/m	33	72
Basic EPS	0.34	0.03	n/m	0.20	72
Free cash flow	(131)	64	(304)	64	(304)

n/m – percentage change not meaningful

Q2 2017 EBIT and EBITDA by Operation <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	57	43	11	(13)	98	0.34
<i>EBIT margin</i>	7.2%	8.4%	4.1%	-	6.2%	
EBITDA	83	58	18	(13)	146	
<i>EBITDA margin</i>	10.5%	11.2%	6.6%	-	9.2%	

There were no significant items in Q2 2017. Included in Q2 2016 results were the following significant items that management does not consider indicative of operational and financial trends either by nature or amount. These significant items are summarized below and described in more detail on page 3 of the Company's Management's Discussion and Analysis ("MD&A").

Q2 2016 EBIT and EBITDA by Operation <i>\$ millions, except per share amounts</i>	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	28	38	(26)	(11)	29	0.03
Severance and restructuring costs	1	1	11	-	13	0.07
Impact from Alberta wildfires - unavoidable costs	11	-	-	-	11	0.05
Estimated loss on disputes - UK power systems	-	-	5	-	5	0.02
Write-down - UK non-core business sale	-	-	5	-	5	0.03
Adjusted EBIT ⁽²⁾⁽³⁾ / Adjusted EPS ⁽²⁾⁽³⁾	40	39	(5)	(11)	63	0.20
Adjusted EBITDA ⁽²⁾⁽³⁾	65	54	3	(11)	111	
<i>EBIT margin</i>	4.4%	8.8%	(10.5)%	-	2.3%	
<i>Adjusted EBIT margin</i> ⁽²⁾⁽³⁾	6.3%	9.1%	(1.9)%	-	4.9%	
<i>Adjusted EBITDA margin</i> ⁽²⁾⁽³⁾	10.3%	12.5%	1.2%	-	8.5%	

- Revenues increased by 21% from Q2 2016, driven by higher new equipment sales in all regions (up 46% on a consolidated basis). Product support revenues grew by 13%, with all operations reporting improved demand for parts. Canada's product support revenues were particularly strong compared to Q2 2016, which was impacted by Alberta wildfires.
- Gross profit increased in line with revenues. While margins improved across all lines of business, a shift in revenue mix to a higher percentage of new equipment sales resulted in a similar gross profit margin compared to Q2 2016.
- EBIT increased by \$35 million or 54% from Adjusted EBIT in Q2 2016, driven by higher revenues and improved profitability in Canada and UK & Ireland. SG&A⁽¹⁾ as a percentage of revenue declined by 140 basis points from Q2 2016, excluding significant items, mainly due to leverage of higher revenues on fixed costs in Canada and UK & Ireland.
- EPS was \$0.34 per share, up from Adjusted EPS of \$0.20 in Q2 2016.
- Q2 free cash flow was a use of cash (\$131) million due to purchasing inventories to meet stronger demand in all regions - mainly parts inventory in Canada and South America, and equipment inventory in South America and UK & Ireland. Reflecting improved revenue outlook and higher backlog, including some purchases of large equipment packages for delivery in early 2018, the Company has lowered its annual free cash flow expectation to a range of \$150 to \$200 million.

Invested Capital⁽²⁾ and ROIC⁽¹⁾⁽²⁾	Q2 2017	Q4 2016	Q2 2016
Invested capital (<i>\$ millions</i>)			
Consolidated	3,094	2,797	3,041
Canada	1,764	1,595	1,695
South America (U.S. dollars)	802	741	824
UK & Ireland (U.K. pound sterling)	178	130	153
Invested capital turnover⁽²⁾ (<i>times</i>)	1.98	1.90	1.78
Adjusted ROIC⁽²⁾⁽³⁾ (%)			
Consolidated	11.2	9.3	9.4
Canada	11.2	9.3	9.3
South America	15.9	15.0	14.2
UK & Ireland	14.0	5.9	3.3

- An increase in invested capital from Q4 2016 was mostly attributable to higher parts and internal service work in progress inventories in Canada in line with growing product support, including component rebuild activity, as well as higher equipment inventories in South America and UK & Ireland to meet improved demand.
- Despite an almost \$200 million increase in inventory levels, inventory turns remained relatively unchanged compared to Q4 2016, reflecting progress on supply chain efficiencies. Working capital to sales ratio declined to 28.9% in Q2 2016 from 30.4% in Q4 2016.
- Invested capital turnover improved to 1.98 times from 1.90 times in Q4 2016, driven by higher revenues.
- Adjusted ROIC increased across all regions compared to Adjusted ROIC in all quarters of 2016 and Q1 2017.

Q2 2017 HIGHLIGHTS BY OPERATION

Canada

- Revenues increased by 25%, with higher revenues in all lines of business except used equipment. New equipment sales were up 50%, driven by engine sales to gas compression customers, and higher deliveries of mining equipment. Product support revenues grew by 21%, reflecting stronger demand for parts and component rebuilds in the oil sands, as well as improved product support activity in other mining and general construction sectors. In Q2 2016, Canada's product support revenues were negatively impacted by the Alberta wildfires which caused interruption in oil sands activity. Excluding the estimated impact of the wildfires, product support revenues were 11% higher compared to Q2 2016.
- EBIT of \$57 million increased by 42% from Adjusted EBIT in Q2 2016, mainly due to leverage of higher revenues on fixed costs. An increase in variable SG&A costs was associated with revenue growth, particularly in product support. EBIT margin was 7.2%, up from Adjusted EBIT margin of 6.3% in Q2 2016, driven by lower relative SG&A costs.

South America

- Revenues were up 20% (up 15% in functional currency, US dollars), driven mostly by stronger new equipment sales. New equipment sales grew by 82% in functional currency and were primarily attributable to higher construction equipment sales in Argentina. In functional currency, product support revenues increased slightly from Q2 2016, driven by improved parts volumes in construction and mining industries in Argentina.

- EBIT of \$43 million was up 10% from Adjusted EBIT in Q2 2016. EBIT margin of 8.4% was below Adjusted EBIT margin of 9.1% in Q2 2016, mostly due to a significant shift in revenue mix to new equipment sales, which typically generate a lower margin.

United Kingdom & Ireland

- Revenues grew by 12% (up 21% in functional currency, UK Pound Sterling), with higher revenues in all lines of business. New equipment sales were up 30% in functional currency, driven by stronger power systems performance in the electric power generation market, as well as higher equipment deliveries. Product support revenues increased by 12% in functional currency, reflecting stronger parts sales across both equipment and power systems businesses.
- EBIT of \$11 million and EBIT margin of 4.1% were significantly ahead of Adjusted EBIT results in Q2 2016, driven by higher revenues, positive impact on margins from improved execution in power systems, and lower SG&A costs. ROIC of 14.0% was the highest in the last two years, reflecting improved operating performance in a very competitive market environment.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a 4% increase in the quarterly dividend to \$0.19 per share from \$0.1825 per share, payable on September 7, 2017 to shareholders of record on August 24, 2017. This dividend will be considered an eligible dividend for Canadian income tax purposes.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

\$ millions, except per share amounts

	Three months ended June 30			Six months ended June 30		
	2017	2016	% change	2017	2016	% change
New equipment	550	377	46	973	892	9
Used equipment	96	101	(6)	169	199	(15)
Equipment rental	54	53	2	105	109	(4)
Product support	877	775	13	1,729	1,596	8
Other	4	4		7	8	
Total revenue	1,581	1,310	21	2,983	2,804	6
Gross profit	422	343	23	815	724	13
Gross profit margin	26.7%	26.2%		27.3%	25.8%	
SG&A	(330)	(315)	(4)	(637)	(652)	2
SG&A as a percentage of revenue	(20.8)%	(24.1)%		(21.3)%	(23.3)%	
Equity earnings of joint ventures & associate	5	6		4	7	
Other income (expenses)	1	(5)		2	(5)	
EBIT	98	29	232	184	74	148
EBIT margin	6.2%	2.3%		6.2%	2.7%	
Adjusted EBIT	98	63	54	184	130	41
Adjusted EBIT margin	6.2%	4.9%		6.2%	4.7%	
Net income	56	5	n/m	103	20	429
Basic EPS	0.34	0.03	n/m	0.62	0.12	428
Adjusted EPS	0.34	0.20	72	0.62	0.39	61
EBITDA	146	77	87	277	173	59
EBITDA margin	9.2%	6.0%		9.3%	6.2%	
Adjusted EBITDA	146	111	31	277	229	21
Adjusted EBITDA margin	9.2%	8.5%		9.3%	8.2%	
Free cash flow	(131)	64	(304)	(207)	94	(320)
	Jun 30, 2017		Dec 31, 2016			
Invested capital	3,094		2,797			
Invested capital turnover (times)	1.98		1.90			
Net debt to invested capital ⁽²⁾	37.4%		32.0%			
ROIC	9.4%		5.6%			
Adjusted ROIC	11.2%		9.3%			

n/m – percentage change not meaningful

Q2 2017 INVESTOR CALL

The Company will hold an investor call on August 9 at 10:00 am Eastern Time. Dial-in numbers: 1-800-319-4610 (Canada and US), 1-416-915-3239 (Toronto area), 1-604-638-5340 (international). The call will be webcast live and archived for three months at http://www.finning.com/en_CA/company/investors.html. Finning no longer provides a phone playback recording; please use the webcast to access the archived call.

ABOUT FINNING

Finning International Inc. (TSX: FTT) is the world's largest Caterpillar equipment dealer delivering unrivalled service to customers for over 80 years. Finning sells, rents, and provides parts and services for equipment and engines to help customers maximize productivity. Headquartered in Vancouver, B.C., the Company operates in Western Canada, Chile, Argentina, Bolivia, the United Kingdom and Ireland.

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FOOTNOTES

- (1) Earnings Before Finance Costs and Income Taxes (EBIT); Basic Earnings per Share (EPS); Earnings Before Finance Costs, Income Taxes, Depreciation and Amortization (EBITDA); Selling, General & Administrative Expenses (SG&A); Return on Invested Capital (ROIC).
- (2) These financial metrics, referred to as "non-GAAP financial measures" do not have a standardized meaning under International Financial Reporting Standards (IFRS), which are also referred to herein as Generally Accepted Accounting Principles (GAAP), and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where applicable, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" in the Company's MD&A. Management believes that providing certain non-GAAP financial measures provides users of the Company's consolidated financial statements with important information regarding the operational performance and related trends of the Company's business. By considering these measures in combination with the comparable IFRS measures set out in the Company's MD&A, management believes that users are provided a better overall understanding of the Company's business and its financial performance during the relevant period than if they simply considered the IFRS measures alone.
- (3) Reported metrics may be impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are summarized on page 2 of this news release and described on pages 28 to 30 of the Company's MD&A. The financial metrics that have been adjusted to take these items into account are referred to as "Adjusted" metrics. There were no significant items adjusted in Q2 2017.

FORWARD-LOOKING DISCLAIMER

This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Finning makes is forward-looking when it uses what the Company knows and expects today to make a statement about the future. Forward-looking statements may include words such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will. Forward-looking statements in this report include, but are not limited to, statements with respect to: expectations with respect to the economy, markets and activities and the associated impact on the Company's financial results; expected revenue levels compared to last year; expected annual free cash flow; and the expectation of sustainable earnings recovery. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Unless otherwise indicated by us, forward-looking statements in this report reflect Finning's expectations as at the date of this report. Except as may be required by Canadian securities laws, Finning does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Forward-looking statements, by their very nature, are subject to numerous risks and uncertainties and are based on several assumptions which give rise to the possibility that actual results could differ materially from the expectations expressed in or implied by such forward-looking statements and that Finning's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts may not be achieved. As a result, Finning cannot guarantee that any forward-looking statement will materialize. Factors that could cause actual results or events to differ materially from those expressed in or implied by these forward-looking statements include: general economic and market conditions; foreign exchange rates; commodity prices; the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services; Finning's ability to maintain its relationship with Caterpillar Inc.; Finning's dependence on the continued market acceptance of its products, including Caterpillar products, and the timely supply of parts and equipment; Finning's ability to continue to improve productivity and operational efficiencies while continuing to maintain customer service; Finning's ability to manage cost pressures as growth in revenue occurs; Finning's ability to reduce costs in response to slowing activity levels; Finning's ability to attract sufficient skilled labour resources as market conditions, business strategy or technologies change; Finning's ability to negotiate and renew collective bargaining agreements with satisfactory terms for Finning's employees and the Company; the intensity of competitive activity; Finning's ability to raise the capital needed to implement its business plan; regulatory initiatives or proceedings, litigation and changes in laws or regulations; stock market volatility; changes in political and economic environments for operations; the integrity, reliability and availability of, and benefits from information technology and the data processed by that technology; and Finning's ability to protect itself from cybersecurity threats or incidents. Forward-looking statements are provided in this report for the purpose of giving information about management's current expectations and plans and allowing investors and others to get a better understanding of Finning's operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

Forward-looking statements made in this report are based on a number of assumptions that Finning believed were reasonable on the day the Company made the forward-looking statements. Refer in particular to the Outlook section of the MD&A for forward-looking statements. Some of the assumptions, risks, and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this report are discussed in Section 4 of the Company's current AIF and in the annual MD&A for the financial risks.

Finning cautions readers that the risks described in the MD&A and the AIF are not the only ones that could impact the Company. Additional risks and uncertainties not currently known to the Company or that are currently deemed to be immaterial may also have a material adverse effect on Finning's business, financial condition, or results of operations.

Except as otherwise indicated, forward-looking statements do not reflect the potential impact of any non-recurring or other unusual items or of any dispositions, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after the date of this report. The financial impact of these transactions and non-recurring and other unusual items can be complex and depends on the facts particular to each of them. Finning therefore cannot describe the expected impact in a meaningful way or in the same way Finning presents known risks affecting its business.